

MANITOBA) Order No. 21/08
)
THE PUBLIC UTILITIES BOARD ACT) March 20, 2008

BEFORE: Graham Lane, CA, Chairman
Monica Girouard, CGA, Member

STITTCO UTILITIES MAN LTD.
PROPANE RATES

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1.0 INTRODUCTION

By Orders 84/07 and 179/07, the Public Utilities Board (Board) established interim propane rates for Stittco Man Utilities Ltd. (Stittco), and renewed direction for the filing of additional and related information. As a result, as of January 1, 2008 the following rates have been in effect.

Cubic meters	Rate per cubic meter	
	Interim Per 179/07, as of January 1, 2008	Previous Interim Per Order 84/07
Domestic Service		
First 50	\$2.70536	\$2.4155
Over 50	\$2.2373	\$1.9976
Commercial, Industrial and Large Volume Service		
First 1,000	\$2.50648	\$2.2379
Next 3,000	\$2.35435	\$2.1021
Over 4,000	\$2.08522	\$1.8618

Industrial and large volume rates may be set through negotiation, subject to a) negotiated rates not exceeding the rates specified above, and b) the rates being filed and accepted by the Board. At the time of the release of this Order, Stittco had two customers with negotiated rates, the hospitals in Thompson and Flin Flon.

By this Order, the Board finalizes the rates established by both Orders 84/07 and 179/07, accepts certain information filed by Stittco and renews a call for an application to amend the rate structure and process. No rates change as a result of this Order.

While Stittco is to continue to record and account for differences between the actual cost of propane and the cost imbedded in rates, within the Purchased Propane Variance Accounts (PPVAs), and file a monthly report reporting the cumulative position of the PPVAs, the Board notes that it is

unlikely to approve any further increases in rates until Stittco has filed the outstanding proposal and information previously requested and the Board has concluded on the matter.

This Order represents continuing follow-up to Order 79/07 (later confirmed by Order 152/07 which rejected Stittco's application for Board reconsideration of Orders 79/07 and 84/07), which followed a March 2007 public hearing held in Thompson, Manitoba. Order 152/07 denied Stittco's application for:

- a) a revised regulatory model,
- b) changes to Board directions with respect to the small business tax deduction, and
- c) the reversal of a direction for the filing of corporate information related to Stittco's parent company.

Order 84/07 was based on the March 2007 public hearing and initially set interim rates; these rates were later amended, again on an interim basis, by way of Order 179/07.

For a more complete understanding of this Order, it would best be read in conjunction with Orders 04/07, 79/07, 84/07, 152/07 and 179/07, all of which may be accessed through the Board's website www.pub.gov.ca or by contacting the Board's Winnipeg Office.

2.0 BACKGROUND

Incorporated in Manitoba, Stittco distributes propane brought in by railcar and subsequently delivered through pipeline distribution to approximately 1,000 customers in Thompson, Flin Flon and Snow Lake, Manitoba. About 65% of Stittco's propane sales volume has been sold to commercial and institutional customers, the remainder to residential customers.

On November 23, 2007, Stittco, citing increased commodity costs, applied to the Board for varying rate increases for residential and commercial customers, representing average increases of 13.1% for residential customers and 13.9% for commercial customers. Commodity costs generally represent approximately 70% of the overall cost of service reflected in rates. Stittco maintains PPVAs to accrue differences between actual propane supply and transportation costs and those reflected in rates, with interest either charged or credited, as may be appropriate.

Following the March 2007 public hearing in Thompson, Board Order 79/07, (later confirmed by Orders 84/07 and 152/07), rejected Stittco's bid for forbearance of direct rate setting regulation and required additional information of Stittco. On receipt of an amended rate application, prepared by Stittco in accordance with the Board's directions in Order 79/07, the Board granted 4.5% across-the-board rate increases related to non-commodity costs, by way of Order 84/07. Subsequently, Stittco, noting commodity price increases, sought a further rate increase, which was granted by the Board on an interim basis by way of Order 179/07.

Those interim rates will be finalized by this Order as Stittco has filed additional information required by the Board.

With respect to attesting to Stittco's costs, through a letter in January 2008 from Stittco's independent auditor, McCallum and Company, Chartered Accountants (McCallum), the latter:

- a) "... confirm(ed) that propane costs incurred by Stittco Energy on behalf of Stittco Utilities Man Ltd. (Stittco) for the year ended July 31, 2006 were billed to Stittco without mark-up or other charges";

- b) "... confirm(ed) that the allocation methodology used for inter-company financial arrangements between Stittco Energy and Stittco, as established by the Emerald Allocation Report and Emerald Charges Report has been exactly followed";
- c) "... attest(ed) to the value ... of contract and administrative services provided by Stittco Energy to Stittco and the gross value in dollars to contract and administrative services incurred by Stittco Energy, for the year ended July 31, 2006"; and
- d) "having conducted the audit for Stittco, Stittco NWT and Stittco Energy ... attest(ed) to the value in dollars of the total sum of contract and administrative service costs incurred by Stittco, Stittco NWT and Stittco Energy. Virtually all expenditures incurred by all three companies, other than commodity costs, relate to some form of contract or are for administrative services".

3.0 BOARD FINDINGS

The Board is sufficiently satisfied with the filings of Stittco and its independent auditor to confirm, as final, previously established interim rates. The information sought by the Board in earlier Orders, and now substantially provided, was required to allow the Board to conclude on the fairness of transactions between Stittco and its parent company.

The Board notes that Stittco has yet to supply the Board with:

- a) an application and supporting information with respect to the Board's continuing impression that commercial customers are subsidizing residential customers; and

- b) an application to provide for more frequent rate adjustments with respect to commodity cost changes.

Upon receipt of the remaining information and proposals, still outstanding from Stittco, the Board will complete its understanding of the situation and commence a new process to arrive at an approach to, over time, bring about increased fairness between rate classes and more frequent and timely rate amendments. *The Board's process for these matters will likely be paper-based, to avoid further regulatory costs.*

Rates are unlikely to be amended upwards again until the Board is satisfied with the revenue requirement established for commercial customers, relative to residential customers.

Stittco is to continue with the established procedure of maintaining PPVAs, these to accrue differences between actual and estimated costs, as reflected in rates.

4.0 IT IS THEREFORE ORDERED THAT

1. Stittco Utilities Man Ltd.'s interim rates, as established by Board Orders 84/07 and 179/07, be deemed and are hereby approved as final rates.
2. Stittco Utilities Man Ltd. track, and report monthly to the Board, in its Purchased Propane Variance Accounts differences between actual propane costs and the estimated propane costs embedded in rates.
3. Stittco Utilities Man Ltd. file with the Board, on or before the earlier of July 31, 2008 or a new rate application, all outstanding information and proposals as

- related to residential and commercial rate differences as directed and or amended by Board Orders 152/07 and 84/07.
4. Stittco Utilities Man Ltd. file with the Board, on or before the earlier of July 31, 2008 or a new rate application, a proposal to establish a process by which commodity rates will be amended quarterly, on August 1, November 1, February 1 and May 1 of each year, to reflect actual and prospective commodity price and cost changes, as directed in Order 79/07.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"G. GAUDREAU, CMA"

Secretary

Certified a true copy of Order No.
21/08 issued by The Public
Utilities Board

Secretary